Flytech Technology Co., Ltd.

Nonconsolidated Financial Statements

December 31, 2006 and 2005
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Flytech Technology Co., Ltd.:

We have audited the nonconsolidated balance sheets of Flytech Technology Co., Ltd. as of December 31, 2006 and 2005, and the related nonconsolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the nonconsolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Flytech Technology Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

Taipei, Taiwan (the Republic of China)
March 5, 2007

The accompanying nonconsolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

Flytech Technology Co., Ltd.

Nonconsolidated Balance Sheets

December 31, 2006 and 2005
(in thousands of New Taiwan dollars)

Assets	2006	2005
Current assets:		
Cash and cash equivalents (note 4(a))	$ 654,830	373,109
Financial assets at fair value through profit or loss—current (note 4(b))	10,452	-
Notes and accounts receivable, net of allowance for doubtful accounts of $3,623 and $2,585 as of December 31, 2006 and 2005, respectively	284,915	208,256
Receivables from related parties (note 5)	72,720	47,202
Other receivables	24,441	21,969
Inventories (note 4(c))	199,369	160,283
Prepaid expenses and other current assets	11,090	9,493
Deferred income tax assets—current (note 4(i))	10,686	5,460
Pledged time deposits (note 6)	30,100	30,000
Total current assets	1,298,603	855,772
Investments:		
Financial assets carried at cost—noncurrent (note 4(b))	1,286	1,500
Long-term equity investments under equity method (note 4(d))	129,845	121,570
Total investments	131,131	123,070
Property, plant and equipment:		
Land	131,630	131,630
Building	178,150	178,150
Machinery and equipment	70,882	69,383
Transportation equipment	9,593	6,976
Furniture and fixtures	12,844	12,546
Leasehold improvement	12,274	12,996
Miscellaneous equipment	89,438	76,156
Prepayments for purchases of equipment	2,305	7,646
	507,116	495,483
Less: accumulated depreciation	(96,084)	(65,137)
Net property, plant and equipment	411,032	430,346
Deferred pension cost (note 4(g))	1,020	1,450
Other assets	6,195	5,963
Total assets	$ 1,847,981	1,416,601

Liabilities and Stockholders' Equity	2006	2005
Current liabilities:		
Financial liabilities at fair value through profit or loss—current (note 4(f))	$ 16	-
Notes and accounts payable	248,014	141,510
Payables to related parties (note 5)	3,257	3,883
Income tax payable	25,314	-
Accrued expenses and other current liabilities	80,030	61,380
Total current liabilities	356,631	206,773
Long-term liabilities:		
Bonds payable (note 4(h))	-	105,928
Other liabilities:		
Accrued pension liability (note 4(g))	7,833	7,215
Guarantee deposit received	-	200
Deferred income tax liabilities—noncurrent (note 4(i))	4,933	3,776
Total other liabilities	12,766	11,191
Total liabilities	369,397	323,892
Stockholders' equity (note 4(j)):		
Common stock	623,296	504,092
Capital surplus	232,546	153,515
Legal reserve	91,685	65,667
Special reserve	4,299	8,597
Unappropriated earnings	529,734	365,137
Translation adjustment	(2,976)	(3,974)
Net losses not recognized as retirement costs	-	(325)
Total stockholders' equity	1,478,584	1,092,709
Commitments (note 7)		
Total liabilities and stockholders' equity	$ 1,847,981	1,416,601

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Income

Years ended December 31, 2006 and 2005
(in thousands of New Taiwan dollars, except earnings per share)

	2006	2005
Net sales (note 5)	$ 2,042,320	1,538,767
Cost of sales (notes 5 and 10)	(1,378,419)	(1,069,119)
Gross profit	663,901	469,648
Change in unrealized inter-company profits	(6,999)	-
Realized gross profit	656,902	469,648
Operating expenses (notes 5 and 10):		
Selling and administrative	(143,450)	(129,415)
Research and development	(70,891)	(68,827)
	(214,341)	(198,242)
Operating income	442,561	271,406
Nonoperating income and gains:		
Interest income	5,957	2,551
Investment gain recognized under equity method (note 4(d))	7,277	3,789
Gain on disposal of investments	33	842
Foreign currency exchange gain, net	1,658	-
Other income, net (note 5)	8,666	10,444
	23,591	17,626
Nonoperating expense and loss:		
Interest expense	(563)	(2,800)
Loss on disposal of property and equipment	(508)	(2,209)
Foreign currency exchange loss, net	-	(8,228)
Loss on obsolete and slow-moving inventories	(21,380)	-
	(22,451)	(13,237)
Income before income taxes	443,701	275,795
Income taxes (note 4(i))	(21,819)	(15,618)
Net income	$ 421,882	260,177

	Before income tax	After income tax	Before income tax	After income tax
Earnings per share (note 4(k))				
Basic earnings per share	$ 7.24	6.88	5.60	5.28
Basic earnings per share—retroactive			$ 4.72	4.45
Diluted earnings per share	$ 7.24	6.88	4.47	4.21

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2006 and 2005
(in thousands of New Taiwan dollars)

	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustment	Net Losses Not Recognized As Retirement Costs	Total
Balance at January 1, 2005	$ 428,556	84,790	44,909	1,458	305,382	(8,597)	-	856,498
Appropriation approved by the stockholders (note 4(10)):								
Legal reserve	-	-	20,758	-	(20,758)	-	-	-
Special reserve	-	-	-	7,139	(7,139)	-	-	-
Stock dividends and employee bonus paid in stock	55,579	-	-	-	(55,579)	-	-	-
Cash dividends	-	-	-	-	(108,946)	-	-	(108,946)
Directors' and supervisors' remuneration and employee bonus	-	-	-	-	(8,000)	-	-	(8,000)
Convertible bonds converted into common stock and capital surplus	19,957	68,725	-	-	-	-	-	88,682
Net income for 2005	-	-	-	-	260,177	-	-	260,177
Translation adjustments on long-term investments	-	-	-	-	-	4,623	-	4,623
Adjustment to recognize minimum liability	-	-	-	-	-	-	(325)	(325)
Balance at December 31, 2005	504,092	153,515	65,667	8,597	365,137	(3,974)	(325)	1,092,709
Appropriation approved by the stockholders (note 4(10)):								
Legal reserve	-	-	26,018	-	(26,018)	-	-	-
Special reserve	-	-	-	(4,298)	4,298	-	-	-
Stock dividends and employee bonus paid in stock	91,812	-	-	-	(91,812)	-	-	-
Cash dividends	-	-	-	-	(131,353)	-	-	(131,353)
Directors' and supervisors' remuneration and employee bonus	-	-	-	-	(12,400)	-	-	(12,400)
Convertible bonds converted into common stock and capital surplus	27,392	79,031	-	-	-	-	-	106,423
Net income for 2006	-	-	-	-	421,882	-	-	421,882
Translation adjustments on long-term investments	-	-	-	-	-	998	-	998
Adjustment to recognize minimum liability	-	-	-	-	-	-	325	325
Balance at December 31, 2006	$ 623,296	232,546	91,685	4,299	529,734	(2,976)	-	1,478,584

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005
(in thousands of New Taiwan dollars)

		2006	2005
Cash flows from operating activities:			
Net income	$	421,882	260,177
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		36,018	28,800
Provision for redemption of convertible bonds		496	2,568
Investment gain recognized under equity method		(7,277)	(3,789)
Evaluation gain on financial assets		(202)	(24)
Gain on disposal of investments		(33)	(842)
Loss on disposal of property and equipment		508	2,209
Prepayments for purchases of equipment transferred to cost and operating expense		2,170	-
Net deferred income tax expense (benefit)		(4,069)	4,975
Changes in operating assets and liabilities:			
Notes and accounts receivable		(76,659)	(81,696)
Receivables from related parties		(25,518)	(31,661)
Other receivables		(2,472)	(11,042)
Inventories		(39,086)	20,008
Prepaid expenses and other current assets		(1,597)	(5,300)
Notes and accounts payable		106,504	74,867
Payables to related parties		(626)	2,825
Income tax payable		25,314	(9,862)
Accrued expenses and other current liabilities		23,847	7,571
Accrued pension liability		1,373	1,750
Net cash provided by operating activities		460,573	261,534
Cash flows from investing activities:			
Decrease (increase) in financial assets at fair value through profit or loss		(9,987)	71,538
Increase in pledged time deposits		(100)	-
Additions to property and equipment		(23,510)	(45,758)
Increase in other assets		(1,302)	(234)
Net cash provided by (used in) investing activities		(34,899)	25,546
Cash flows from financing activities:			
Increase (decrease) in guarantee deposit received		(200)	200
Cash dividends		(131,353)	(108,946)
Directors' and supervisor's remuneration and employee bonus		(12,400)	(8,000)
Net cash used in financing activities		(143,953)	(116,746)
Net increase in cash and cash equivalents		281,721	170,334
Cash and cash equivalents at beginning of year		373,109	202,775
Cash and cash equivalents at end of year	$	654,830	373,109
Additional disclosure of cash flow information:			
Interest paid	$	67	232
Income taxes paid	$	574	34,256
Supplemental information on noncash investing and financing activities:			
Additions to property and equipment	$	18,312	40,455
Payables at beginning of year		8,638	13,941
Payables at end of year		(3,440)	(8,638)
Net payment	$	23,510	45,758
Convertible bonds transferred to common stock and capital surplus	$	106,423	88,682
Translation adjustment on long-term equity investments	$	998	4,623

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Notes to Nonconsolidated Financial Statements

December 31, 2006 and 2005

(amounts expressed in thousands of New Taiwan dollars, except per share information and unless otherwise specified)

1. Organization and Principal Activities

Flytech Technology Co., Ltd. (the "Company") was incorporated on August 13, 1984, as a company limited by shares under the Republic of China ("ROC") Company Act. The Company is engaged in the development, design and manufacture of Book PCs, Net PCs, POS PCs, and IPCs.

As of December 31, 2006 and 2005, the Company had hired 287 and 270 employees, respectively.

2. Summary of Significant Accounting Policies

The Company prepares its nonconsolidated financial statements in accordance with accounting principles generally accepted in the Republic of China ("ROC GAAP"). The preparation of nonconsolidated financial statements in conformity with ROC GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the nonconsolidated financial statements and the amount of revenues and expenses reported during the reporting period. Actual results could differ from those assumptions and estimates. The major accounting policies adopted in preparing the financial statements are summarized below:

(a) Foreign currency transactions and translation

The Company's reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates of that date. The resulting unrealized exchange gains or losses are reflected in the accompanying nonconsolidated statements of income.

For equity investments in foreign subsidiaries and investees which are accounted for by the equity method, the differences resulting from translating foreign currency financial statements from their functional currency into the Company's reporting currency are reported as a translation adjustment, a separate component of stockholders' equity.

(b) Principles of classifying assets and liabilities as current and non-current

Cash or cash equivalents that are not restricted in use, and assets that will be held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets are classified as non-current.

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Liabilities incurred for trading purposes or expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as non-current.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, and other highly liquid investments which do not have a significant level of market risk from potential interest rate changes.

(d) Financial assets at fair value through profit or loss

The Company adopted transaction-date accounting for derivative financial instrument transactions. The Company's investments in open-end mutual funds are classified as financial assets at fair value through profit or loss. The cost of financial assets is determined by the weighted-average method. The difference between the selling price and the acquisition cost is recorded in the nonoperating section in the accompany nonconsolidated statements of income.

Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The fair value of open-end mutual funds is based on the net asset value of the mutual funds at the balance sheet date.

The Company's investments in open-end mutual funds before December 31, 2005, were classified into short-term investments. Investments are accounted for at acquisition cost and are stated at the lower of cost or market value. Related valuation losses are recorded as nonoperating losses. The market value is based on the net asset value of the mutual funds on the balance sheet date. The cost of investments is determined by the weighted-average method.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the aging, quality analysis, and collectibility of notes and accounts receivable.

(f) Inventories

Inventories are stated at the lower of weighted-average cost or market value. Market value represents replacement cost or net realizable value.

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(g) Investments

(i) Long-term equity investments accounted for using equity method

Long-term equity investments in which the Company owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operations and financial policies, are accounted for by the equity method.

When investments are disposed of, the difference between the selling price and the book value of the long-term equity investments under the equity method is recognized as disposal gain or loss in the accompanying nonconsolidated statements of income. If there are capital surplus and separate components of shareholders' equity resulting from long-term equity investments, they should be debited to disposal gain/loss based on the percentage of investments disposed of.

Unrealized inter-company profits or losses from transactions between the Company and investees accounted for by equity method are reported as deferred inter-company profits or losses. The profits or losses resulting from depreciated or amortized assets are recognized over the estimated useful lives of such assets. The profits or losses from other assets are recognized when realized.

(ii) Financial assets carried at cost

Investments in which the Company owns less than 20% of the investees' voting shares and is not able to exercise significant influence over the investees' operations and financial policies are classified as financial assets carried at cost. Equity investments which cannot be evaluated at fair value are booked at original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost. Interest expense related to the construction and purchase of property and equipment is capitalized and included in the cost of the related asset. Significant additions, improvements, and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred. Gains and losses on the disposal of property and equipment are recorded in the nonoperating section in the accompanying nonconsolidated statements of income.

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Property and equipment are depreciated over the asset's estimated useful life using the straight-line method. The estimated useful lives of property and equipment are as follows:

1. Building 50 years
2. Machinery and equipment 3~10 years
3. Transportation equipment 4~6 years
4. Other equipment 2~10 years

(i) Asset impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 35 "Impairment of Assets". In accordance with SFAS No. 35, the Company assesses at each balance sheet date whether there is any indication that an asset may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(j) Revenue recognition

Revenue from sales of products is recognized when products are delivered to customers and the significant risks and rewards of ownership are transferred.

(k) Derivative financial instruments and hedging activities

The Company uses foreign currency forward contracts to hedge its exposure to foreign exchange arising from operational activities. Since the derivative financial instruments do not meet the criteria for hedge accounting, they are accounted for under "financial assets/liabilities at fair value through profit or loss". Changes in the fair value are recognized in profit or loss in the accompanying nonconsolidated statements of income.

(l) Retirement plan

(i) Defined benefit retirement plan

In 1986, the Company established a retirement plan (the "Plan") and a retirement fund administration committee. This plan provides for lump-sum retirement benefits to retiring employees based on length of service, age, and the average salary for the six months before retirement. The Company deposits monthly retirement funds equal to 2% of employees' total salaries with the Central Trust of China in accordance with the Labor Standards Law.

The Company has an actuarial calculation of its pension liability under the Plan using the balance sheet date as the measurement date. The Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets, and also recognizes net periodic pension costs using actuarial techniques.

(ii) Defined contribution retirement plan

Starting from July 1, 2005, the Company, in accordance with the enforcement rules of the newly enacted Labor Pension Act (the "New Act"), implemented a defined contribution retirement plan. This new plan applies to the following employees:

1. employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and
2. employees who commenced working after the enforcement date of the New Act.

For the portion of the retirement plan adopting the defined contribution scheme in accordance with the New Act, the Company provides monthly contributions to the Bureau of Labor Insurance equal to 6% of the worker's monthly wages. Contributions made are recognized as expense of the current period.

(m) Convertible bonds

Convertible bonds issued by the Company comprise a financial liability and a convertible option that can be converted into common shares at the option of the holder. According to ROC SFAS No. 36 "Financial Instruments: Disclosure and Presentation", they should be recognized as compound financial instruments. These instruments are made up of a host debt instrument with an embedded derivative, which represents a written call option on the entity's shares. The embedded derivative may need to be accounted for separately from the host contract. However, following the interpretation of the ROC Accounting Research and Development Foundation, for compound financial instruments issued by the Company before January 1, 2006, the Company could choose whether to separate from the host contract. The Company decided not to split host debt instruments with an embedded derivative. Premiums on redemption of convertible bonds are amortized using the effective-interest method over the outstanding period.

(n) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected

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to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

Classification of deferred income tax assets and liabilities as current or noncurrent is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset's or liability's expected realization date.

A tax imputation system was adopted in accordance with the amendment of the ROC Income Tax Act. Under this system, the Company may retain earnings arising after December 31, 1997, by paying a 10% surtax on such undistributed earnings, and the surtax is accounted for as income tax expense upon the stockholders' resolution on distribution of earnings.

(o) Earnings per share of common stock

Earnings per share are based on net income divided by the weighted-average number of common shares outstanding. The increase in the number of outstanding shares through distribution of stock dividends from retained earnings or capital surplus is included in the outstanding shares retroactively.

Convertible bonds are dilutive potential common stock. The computation of diluted earnings per share is based on the abovementioned weighted-average number of outstanding common shares plus the weighted-average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares.

3. Changes in Accounting Policies

(a) Asset impairment

The Company adopted ROC SFAS No. 35 "Impairment of Assets" in 2005. After performing an impairment test on those assets with an indication of impairment, the Company determined that no impairment loss would be recognized as of December 31, 2005.

(b) The Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement" and SFAS No. 36 "Financial Instruments: Disclosure and Presentation" starting from January 1, 2006. The Company classified financial instruments in accordance with the purpose of holding and measured them at fair value. These accounting changes do not have significant impact on the 2006 nonconsolidated financial statements.

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4. Significant Account Disclosures

(a) Cash and cash equivalents

	2006	2005
Cash on hand	$ 313	369
Cash in banks	378,919	222,540
Time deposit	275,598	150,200
	$ 654,830	373,109

(b) Financial assets

As of December 31, 2006 and 2005, the financial instruments held by the Company were as follows:

	2006	2005
Financial assets at fair value through profit or loss—current		
Open-end mutual fund	$ 10,452	-
Financial assets carried at cost—noncurrent		
Equity securities—Taiwan Video System	$ 1,286	1,500

In 2006, the Company recognized a valuation gain amounting to $432 on its mutual fund.

The Company's investments in Taiwan Video System are accounted for using the cost method since market information is not readily available. In 2006, the Company recognized a decline in value of its equity securities amounting to $214.

Following the interpretation of the ROC Accounting Research and Development Foundation, the Company reclassified the 2005 nonconsolidated financial statements in accordance with SFAS No. 34. As of December 31, 2005, investments originally accounted for using the cost method amounting to $1,500 were reclassified as financial assets carried at cost—noncurrent.

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Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(c) Inventories

	2006	2005
Raw materials	$ 108,208	96,325
Work in process	96,780	68,412
Finished goods	15,688	7,719
Merchandise	2,066	2,392
Less: provision for obsolescence and net realizable value	(23,373)	(14,565)
	$ 199,369	160,283

(d) Long-term equity investments under equity method

	2006			
Investee	Percentage of ownership (%)	Investment cost	Book value	Investment income (loss)
Flytech USA International Co., Ltd.	100.00	$ 20,692	26,112	191
Flytech JP International Co., Ltd.	100.00	3,446	3,863	(238)
Flytech HK International Co., Ltd.	100.00	10,392	34,910	5,331
Flytech CN International Co., Ltd.	100.00	69,089	64,960	1,993
		$ 103,619	129,845	7,277

	2005			
Investee	Percentage of ownership (%)	Investment cost	Book value	Investment income (loss)
Flytech USA International Co., Ltd.	100.00	$ 20,692	26,123	205
Flytech JP International Co., Ltd.	100.00	3,446	4,155	143
Flytech HK International Co., Ltd.	100.00	10,392	29,896	4,422
Flytech CN International Co., Ltd.	100.00	69,089	61,396	(981)
		$ 103,619	121,570	3,789

(e) Short-term borrowings

Unused credit facilities as of December 31, 2006 and 2005, amounted to $262,980 and $264,250, respectively. The Company pledged time deposits to obtain the credit facilities. Refer to note 6 for a description of pledged assets.

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(f) Derivative financial instruments

As of December 31, 2006, the Company had the following foreign currency forward contracts outstanding:

	December 31, 2006	
	Notational amount (in thousands)	Contract period
USD CALL/NTD PUT	USD 2,000	2006/12/19~2007/02/09

On December 31, 2005, there was no foreign currency forward contract outstanding.

The aforementioned derivative financial instruments are classified as "financial liabilities at fair value through profit or loss—current". As of December 31, 2006, the fair value of the derivative financial instruments was as follows:

	December 31, 2006
Foreign currency forward contracts	$ (16)

(g) Retirement plan

(1) Defined benefit retirement plan

The funded status of the pension plan and accrued pension liability as of December 31, 2006 and 2005, are summarized below:

	2006	2005
Benefit obligation:		
Vested benefit obligation	$ -	-
Nonvested benefit obligation	(21,856)	(20,645)
Accumulated benefit obligation	(21,856)	(20,645)
Projected compensation increases	(5,563)	(5,698)
Projected benefit obligation	(27,419)	(26,343)
Plan assets at fair value	14,023	13,430
Funded status	(13,396)	(12,913)
Unrecognized transition obligation	1,329	1,450
Unrecognized net loss	5,254	6,023
Adjustment to recognize minimum liability	(1,020)	(1,775)
Accrued pension liability	$ (7,833)	(7,215)

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The components of the net periodic pension cost for 2006 and 2005 are summarized as follows:

		2006	2005
Service cost	$	733	2,406
Interest cost		922	825
Expected return on plan assets		(364)	(324)
Amortization of net transition obligation		121	121
Amortization of pension loss		212	265
Net periodic pension cost	$	1,624	3,293

Major assumptions used to determine the above information:

	2006	2005
Discount rate	3.50%	3.50%
Rate of increase in future compensation levels	2.00%	2.00%
Expected long-term rate of return on plan assets	2.50%	2.50%

(2) Defined contribution retirement plan

In 2006 and 2005, pension cost under the defined contribution pension plan was $7,083 and $3,463, respectively.

(h) Bonds payable

		2006	2005
Domestic unsecured convertible bonds	$	-	101,900
Provision for redemption of convertible bonds		-	4,028
	$	-	105,928

Domestic unsecured convertible bonds amounting to $200,000 were issued on October 14, 2003. These bonds can be converted into the Company's common shares any time between January 14, 2004, and ten days before October 14, 2008, the maturity date, at the prescribed conversion price at that time. The conversion price was adjusted from $52 to $32 as a result of stock dividends and cash dividends exceeding 15% of the Company's paid-in capital. As of December 31, 2006 and 2005, bonds payable amounting to $200,000 and $98,100, respectively, had been converted.

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(i) Income taxes

(1) The Company is subject to ROC income tax at a maximum rate of 25%. The Company is subject to the "Income Basic Tax Act" commencing from January 1, 2006.

(2) In accordance with the Statute for Upgrading Industries, the Company obtained governmental approval for tax exemption on all products manufactured by the Company for 5 years starting from 2005.

(3) The income taxes for the years ended December 31, 2006 and 2005, are summarized as follows:

	2006	2005
Current income tax expense	$ 25,888	10,179
Deferred income tax expense (benefit)	(4,069)	4,975
10% surtax on undistributed earnings	-	464
	$ 21,819	15,618

(4) The differences between the expected income tax expense based on the pre-tax income at the Company's statutory income tax rate and the actual income tax expense reported in the non-consolidated statements of income for the years ended December 31, 2006 and 2005, are summarized as follows:

	2006	2005
Expected income tax expense	$ 110,925	68,948
Tax-exempt income	(63,396)	(47,125)
Investment tax credits	(20,511)	(22,816)
10% surtax on undistributed earnings	-	464
Others	1,602	(1,394)
Change in valuation allowance for deferred income tax assets	(6,801)	17,541
	$ 21,819	15,618

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(5) The components of the deferred income tax expense (benefit) are summarized as follows:

	2006	2005
Investment tax credits	$ 5,794	(12,609)
Provision for obsolescence and net realizable value	(2,202)	-
Investment gain recognized under equity method	1,819	947
Unrealized inter-company profits	(1,750)	-
Change in valuation allowance for deferred income tax assets	(6,801)	17,541
Other	(929)	(904)
	$ (4,069)	4,975

(6) The components of deferred income tax assets (liabilities) as of December 31, 2006 and 2005, are summarized as follows:

	2006	2005
Deferred income tax assets — current:		
Inventory provisions	$ 5,843	3,641
Unrealized inter-company profits	2,761	1,011
Accrued warranty expenses	1,772	-
Others	360	808
Deferred income tax liabilities		
Unrealized foreign currency exchange gain, net	(50)	-
Net deferred income tax assets — current	$ 10,686	5,460
Deferred income tax assets — noncurrent:		
Investment tax credit	$ 11,751	17,545
Accrued pension liabilities	1,624	1,706
Provision for redemption of convertible bonds	-	1,007
Others	744	-
Allowance for deferred income tax assets	(11,751)	(18,552)
Deferred income tax liabilities — noncurrent:		
Investment income recognized under equity method	(7,301)	(5,482)
Net deferred income tax liabilities — noncurrent	$ (4,933)	(3,776)

(7) The Company receives investment tax credits for investment in automatic machinery and equipment and for research and development expenditures. The investment tax credits can be used to offset 50% of the current year's income tax liability. Generally, any unused tax credit can be carried forward for the next four years.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

As of December 31, 2006, unused tax credits available to the Company were as follows:

	Unused tax credit	Expiration year
2006	$ 11,751	2010

(8) Imputation credit account ("ICA") and creditable ratio

As of December 31, 2006 and 2005, the information related to the integrated tax system was as follows:

	2006	2005
ICA balance	$ 8,192	15,775

The Company's estimated creditable ratio for the 2006 earnings distribution to domestic stockholders is approximately 6.33%, and the actual creditable ratio for the 2005 earnings distribution to domestic stockholders was 7.37%.

	2006	2005
Unappropriated earnings:		
Before January 1, 1998	$ 177	177
From January 1, 1998	529,557	364,960
	$ 529,734	365,137

(9) The ROC tax authorities have examined the Company's income tax returns for all fiscal years through December 31, 2004.

(j) Stockholders' equity

(1) Common stock

As of December 31, 2006 and 2005, the Company's authorized common stock consisted of 120,000,000 and 70,000,000 shares, respectively, at $10 par value per share, of which 62,330 and 50,409 thousand shares, respectively, were issued and outstanding.

In June 2006, the Company's stockholders decided to transfer unappropriated earnings of $91,812 to common stock by issuing of 9,181,194 shares of common stock dividends. The issuance of common stock has been approved by and registered with the governmental authorities.

(Continued)

In May 2005, the Company's stockholders decided to transfer unappropriated earnings of $55,579 to common stock by issuing of 5,557,861 shares of common stock dividends. The issuance of common stock has been approved by and registered with the governmental authorities.

(2) Capital surplus

As of December 31, 2006 and 2005, the components of capital surplus were as follows:

	2006	2005
Gain on disposal of property and equipment	$ 15	15
Share premium:		
Paid-in common stock in excess of par value	75,000	75,000
Convertible bonds converted in excess of the common stock's par value	157,531	78,500
	$ 232,546	153,515

According to the ROC Company Act, realized capital surplus can be transferred to common stock after deducting accumulated deficit, if any. Realized capital surplus includes share premium and donations from others.

(3) Special reserve

A special capital reserve equivalent to the net debit balance of the other components of stockholders' equity shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau. Any special reserve appropriated may be reversed to the extent that the net debit balance is reversed.

The Company incurred a net debit balance resulting from translation adjustment. The special reserve as of December 31, 2006 and 2005, amounted to $4,299 and $8,597, respectively.

(4) Legal reserve and appropriation of earnings

The Company's articles of incorporation stipulate that the balance of annual income after deducting accumulated deficit, if any, must be set aside as a legal reserve equal to 10% of such balance. The remaining balance, if any, must be distributed as follows:

- 3% to 15% as employee bonus;
- 3% or less as remuneration for directors and supervisors;

(Continued)

- The remainder as dividends and bonuses for stockholders.

In view of the overall economic environment, the industry development, the Company's long-term capital policy, and stockholders' demands for cash, the Company has adopted a consistent dividend policy. Cash dividends distributed would not be lower than 10% of total stock and cash dividend distributions.

According to the ROC Company Act, the legal reserve can be used to offset an accumulated deficit and can be transferred to common stock in the amount of one-half of legal reserve when it reaches an amount equal to one-half of issued common stock.

The appropriation of 2005 earnings approved by the shareholders in a meeting on June 14, 2006, was as follows:

Dividend per share:	
Cash	$ 2.5
Stock	1.5
	$ 4.0
Employee bonus – stock (par value)	$ 13,000
Employee bonus – cash	10,000
Directors' and supervisors' remuneration	2,400
	$ 25,400

The appropriation mentioned above did not differ from the resolution approved by the directors. Assuming the above employee bonus and directors' and supervisors' remuneration were paid in cash and expensed in the year when the earnings were recognized, the earnings per share after tax for 2005 would be reduced from $5.28 to $4.77. Stock dividends distributed to employees represented 2.58% of the outstanding common shares for year 2005.

The appropriation of 2006 earnings to employee bonus and directors' and supervisors' remuneration is subject to the Company's directors' and shareholders' resolutions. After the resolutions, related information can be obtained from the public information website.

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Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(k) Earnings per share

For the years ended December 31, 2006 and 2005, the computation of earnings per share was as follows:

	2006		2005	
	Before income tax	**After income tax**	**Before income tax**	**After income tax**
Basic earnings per share:				
Net income	$ 443,701	421,882	275,795	260,177
Weighted-average number of common shares outstanding (in thousands)	61,319	61,319	49,269	49,269
Weighted-average number of common shares outstanding (in thousands) — retroactive	-	-	58,450	58,450
Basic earnings per share	$ 7.24	6.88	5.60	5.28
Basic earnings per share — retroactive			$ 4.72	4.45
Diluted earnings per share:				
Net income	$ 443,701	421,882	275,795	260,177
Increase in earnings attributable to common shareholders on conversion of convertible bonds	-	-	2,568	1,926
	$ 443,701	421,882	278,363	262,103
Weighted-average number of common shares outstanding (in thousands)	61,319	61,319	58,450	58,450
Increase in shares resulting from convertible bonds	-	-	3,780	3,780
	61,319	61,319	62,230	62,230
Diluted earnings per share	$ 7.24	6.88	4.47	4.21

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(l) Disclosure of financial instruments

(1) As of December 31, 2006 and 2005, fair values of financial assets and liabilities of the Company were as follows:

	2006.12.31		2005.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	$ 654,830	654,830	373,109	373,109
Financial assets at fair value through profit or loss	10,452	10,452	-	-
Notes and accounts receivable	284,915	284,915	208,256	208,256
Receivables from related parties	72,720	72,720	47,202	47,202
Other receivables	24,441	24,441	21,969	21,969
Pledged time deposits	30,100	30,100	30,000	30,000
Financial assets carried at cost	1,286	-	1,500	-
Financial liabilities:				
Financial liabilities at fair value through profit or loss — foreign currency forward contracts	16	16	-	-
Notes and accounts payable	248,014	248,014	141,510	141,510
Payables from related parties	3,257	3,257	3,883	3,883
Bonds payable	-	-	105,928	122,433
Accrued pension liability	7,833	7,833	7,215	7,215

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

(i) The carrying amounts reflected in the balance sheets classified as cash and cash equivalents, pledged time deposits, notes and accounts receivable, receivables from related parties, other receivables, notes and accounts payable, and payables to related parties approximate their fair values because of the short-term maturity of these instruments.

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(ii) Financial assets at fair value through profit or loss – current

Publicly quoted market price is used as fair value.

(iii) Financial assets carried at cost

Financial assets carried at cost represent equity investments in non-publicly traded securities. Management believes that it is not practicable to estimate the fair value of these investments since market information is not readily available.

(iv) Financial liabilities at fair value through profit or loss – current

The fair value of the Company's derivative financial instruments are based on quotations received from financial institutions. Such fair values are estimated using a valuation method.

(v) Bonds payable

The fair value of bonds payable is based on the quoted market prices.

(vi) Accrued pension liability

The fair value is based on the actuarial calculation.

(2) Disclosure of financial risk

(i) Market risk

Mutual funds were recorded by the Company as "financial assets at fair value through profit or loss – current" and were evaluated by fair value. Therefore, the Company was exposed to the risk of market price fluctuation.

The Company entered into foreign currency forward contracts to hedge exchange risk resulting from assets and liabilities denominated in foreign currency. The gain and loss resulting from the change in the exchange rate of the forward contracts was offset by that from the hedged assets and liabilities. Therefore, the market risk related to the changes in exchange rates was not considered significant.

(ii) Credit risk

The Company's credit risk is mainly from potential breach of contract by the counter-party associated with cash, securities and accounts receivable. The Company usually deposits cash with several different financial institutions in order to control its exposure to credit risk. As a result, the concentration of credit risk related to the Company's cash and securities is not considered significant.

The Company's accounts receivable were concentrated on the corporate accounts. To reduce the concentration of credit risk, the Company made a continuous assessment of the financial position of the clients and transferred the risk through insurance.

(iii) Liquidity risk

The Company's capital and operating funds are sufficient to reimburse all obligations. Therefore, the Company did not have liquidity risk.

5. Transactions with Related Parties

(a) Name of and relationship with related parties

Name	Relationship
Flytech USA International Co., Ltd. ("Flytech USA BVI")	Subsidiary of the Company
Flytech JP International Co., Ltd. ("Flytech JP BVI")	Subsidiary of the Company
Flytech HK International Co., Ltd. ("Flytech HK BVI")	Subsidiary of the Company
Flytech CN International Co., Ltd. ("Flytech CN BVI")	Subsidiary of the Company
Flytech Technology (U.S.A.), Inc. ("Flytech USA")	Subsidiary of Flytech USA BVI
Flytech Technology Japan Ltd. ("Flytech Japan")	Subsidiary of Flytech JP BVI
Flytech Technology Hong Kong Ltd. ("Flytech HK")	Subsidiary of Flytech HK BVI
Flytech Technology (Shang Hai) Co., Ltd. ("Flytech CN")	Subsidiary of Flytech CN BVI

(Continued)

(b) Significant transactions with related parties

(1) Sales, and related notes and accounts receivable

Sales to:

	2006		2005	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Flytech USA	$ 141,145	7	76,736	5
Flytech HK	73,454	3	77,835	5
Flytech CN	37,831	-	18,852	1
Other	846	-	321	-
	$ 253,276	10	173,744	11

Trading terms and selling prices with related parties are decided by the economic environment and market competition of the respective region. Trading terms with related parties require payment within 90 days. Trading terms with third parties require payment within 45 to 60 days.

As of December 31, 2006 and 2005, the unrealized profit on the above inter-company transactions amounting to $11,044 and $4,045, respectively, was recorded as accrued expenses and other current liabilities in the accompanying balance sheets.

Notes and accounts receivable from:

	2006		2005	
	Amount	Percentage of notes and accounts receivable	Amount	Percentage of notes and accounts receivable
Flytech USA	$ 39,437	9	14,579	6
Flytech HK	21,883	4	19,761	8
Flytech CN	5,103	1	5,202	2
Other	62	-	40	-
	$ 66,485	14	39,582	16

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(2) Purchases, and related notes and accounts payable

Purchases from	2006		2005	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
Flytech HK	$ 190	-	1,742	-

As of December 31, 2006 and 2005, the related notes and accounts payable resulting from the above-mentioned transactions were fully paid.

(3) Royalty income

In January 2006 and 2005, the Company entered into a product technology license agreement with Flytech HK. In accordance with the agreement, Flytech HK is required to pay the Company royalties based on a certain percentage of sales. Total royalty income (recorded as nonoperating income and gains) for the years ended December 31, 2006 and 2005, was $6,182 and $7,620, respectively. As of December 31, 2006 and 2005, outstanding receivables amounted to $6,182 and $7,620, respectively.

(4) Commission expenses and commission payable

Commission expenses resulting from related parties' introducing business to the Company for the years ended December 31, 2006 and 2005, were as follows:

	2006	2005
Flytech USA	$ 6,849	9,992
Flytech Japan	5,097	5,845
Flytech HK	1,530	1,444
	$ 13,476	17,281

Commission payable to:

	2006	2005
Flytech USA	$ 2,094	2,961
Flytech Japan	699	478
Flytech HK	452	241
	$ 3,245	3,680

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(5) Summary of related-party receivables

Receivables from related parties as of December 31, 2006 and 2005, resulting from the above transactions are summarized as follows:

	2006	2005
Notes and accounts receivable	$ 66,485	39,582
Royalty receivable	6,182	7,620
Advances to related parties	53	-
	$ 72,720	47,202

(6) Summary of related-party payables

Payables to related parties as of December 31, 2006 and 2005, resulting from the above transactions are summarized as follows:

	2006	2005
Commissions payable	$ 3,245	3,680
Advances from related parties	12	203
	$ 3,257	3,883

6. Pledged Assets

Pledged assets	Pledged to secure	2006	2005
Time deposits	Credit facilities for loans	$ 30,000	30,000
Time deposits	Customs duty	100	-
		$ 30,100	30,000

7. Commitments

(a) In June 1991, the Company entered into a license agreement with IBM USA for using "Information Handling System" ("IHS") patented technology. In accordance with the agreement, the Company is required to pay IBM royalties related to sales of products that use IBM IHS patents.

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Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(b) The Company has entered into an operating lease agreement for its plant. Minimum lease payments are summarized as follows:

2007	$ 13,950
2008	13,860
2009	13,860
2010	4,620
	$ 46,290

8. Significant Disaster Loss: none.

9. Significant Subsequent Events: none.

10. Other

(a) The personnel expenses, depreciation, and amortization for 2006 and 2005 are summarized as follows:

	2006			2005		
	Cost of sales	**Operating expenses**	**Total**	**Cost of sales**	**Operating expenses**	**Total**
Personnel expenses:						
Salaries and wages	72,474	80,296	152,770	69,482	75,955	145,437
Labor insurance	5,524	5,243	10,767	5,370	4,753	10,123
Pension	3,448	5,259	8,707	2,906	3,850	6,756
Other	4,164	2,528	6,692	4,116	2,467	6,583
Depreciation	27,713	7,235	34,948	21,013	7,055	28,068
Amortization	-	1,070	1,070	-	732	732

(b) Reclassifications

Certain amounts in the nonconsolidated financial statements as of and for the year ended December 31, 2005, have been reclassified to conform to the 2006 presentation for comparative purposes. These reclassifications do not significantly impact the presentation of the nonconsolidated financial statements.